

Financial sector must rise to meet climate challenges

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Body

It's annual general meeting season and once again shareholders are pressing Canadian financial institutions to do more to align their actions with their net-zero promises.

While there's no longer any debate in boardrooms about whether climate change poses a risk to financial institutions, now we need to confront how our financial system contributes to climate risk.

This is one of the reasons why I introduced Bill S-243, the Climate-Aligned Finance Act (CAFA), a comprehensive set of legislative changes to align our financial sector with climate commitments and set us on an ambitious path to a climate-safe future.

This legislation - developed with dozens of experts - will elevate Canada from international laggard to leader in climate finance, which is critical to safeguarding our economy, environment and future.

These measures include enforcing science-based targets and holding financial institutions accountable to them, establishing climate alignment as a superseding duty and strengthening capital adequacy requirements - resulting in greater climate resilience across our whole financial ecosystem.

While financial institutions and regulators in Canada are taking some steps in the right direction, there are major gaps that remain unaddressed.

The last several months have seen a flurry of developments at the nexus of climate change and finance. The Office of the Superintendent of Financial Institutions' (OSFI), which oversees federally regulated financial institutions, released Guideline B-15 on climate risk management. Not long after, Report 4 of the commissioner of the environment and sustainable development's (CESD) auditing OSFI's supervision of climate-related financial risks found the regulator to be lagging behind its international peers with respect to the timing and ambition of its actions.

The CESD also highlighted that the United Kingdom and European Union have aligned financial supervisors' mandates with sustainability objectives, whereas Canada has not. This conclusion was consistent with a report by the UN's Principles for Responsible Investment group, which reviewed 11 jurisdictions and found Canada to be lagging in sustainable finance regulation.

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It's no surprise, then, that a BloombergNEF analysis found that Canadian banks ranked in the bottom third in financing clean energy relative to their international peers, but lead in fossil fuel investment. We need Canada's financial institutions to be at the front of the pack, not the rear.

While acknowledging the risk climate change poses to our financial system is important, it is only a part of the bigger picture. What's missing is taking action to tackle how Canada's entire financial ecosystem fuels climate risk by financing and facilitating emissions produced by fossil fuels. If we want to keep our ship from sinking, we can't just point to the holes as the source of the problem. We actually have to stop drilling them and start filling them.

In addition to hindering our global competitiveness, failing to align our financial sector with the realities of climate change and imperatives of climate action increase uncertainty and the litigation risk arising from a flood of corporate greenwashing. In the last year alone, three climate-related greenwashing complaints have been filed with the Competition Bureau.

As recent turmoil in the banking sector shows, hidden risks within the financial system can rattle the global economy and threaten livelihoods and investments. This is a crisis and we need to treat it that way.

Ultimately, accountability for the stability and integrity of Canada's financial system rests with the federal government. Clearer regulation would create certainty and ensure Canada's financial institutions are full participants in the transition to net zero. We continue to hope that our financial institutions will rise to the climate challenge. But hope is not a strategy, world-leading Canadian legislation is.

CAFA is my clarion call for the courageous legislation we need to confront the climate risk facing Canada's financial institutions. This bill demonstrates what world leading climate finance legislation looks like. It sets the high bar that we need to clear if we are to overcome the existential threat of climate change in the rapidly closing window of time we have left to do so.

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